

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Laird Analyst: Rachel Coco Bill Number: AB 2722

Related Bills: See Prior Analysis Telephone: 845-4328 Amended Date: August 16, 2004

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Natural Heritage Preservation Tax Credit/State Entity Property Acquisitions/Bond Funds/FTB Provide Information Regarding Credits Claimed

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED

X May 20, 2004, STILL APPLIES.

OTHER - See comments below.

SUMMARY

This bill would allow the Wildlife Conservation Board (WCB) to award Natural Heritage Preservation tax credits and use bond funds to reimburse the General Fund (GF) for lost revenue resulting from the award of the credits.

This bill also would outline the process in which a local government would acquire property. These provisions would not impact the department or its programs and are not discussed in this analysis.

SUMMARY OF AMENDMENTS

The August 16, 2004, amendments removed language that would allow the WCB to award Natural Heritage Preservation tax credits in excess of the current \$100 million limitation. The amendments also removed language that would delete the sunset date of the credit and allow the WCB authority to issue the preservation tax credits indefinitely.

As a result of the amendments, the "This Bill" and "Economic Impact" discussions have been revised and are included below. The remainder of the analysis of the bill as amended May 20, 2004, still applies.

POSITION

Neutral. On June 10, 2004, the Franchise Tax Board voted 2-0 to take a neutral position on this bill.

Board Position:

_____ S _____ NA _____ NP
_____ SA _____ O _____ NAR
X _____ N _____ OUA _____ PENDING

Legislative Director

Date

Jana Howard for Brian Putler

8/31/04

THIS BILL

This bill would allow the WCB to use bond funds to reimburse the GF for the amount of the Natural Heritage Preservation tax credits awarded. The state department or local agency acquiring donated property would be required to make reimbursement by transferring the bond funds to the Natural Heritage Tax Credit Reimbursement Account created within the GF by this bill. The transfer would be made based on information provided by the Franchise Tax Board (FTB).

This bill would require FTB to provide the WCB the amount of the Natural Heritage Preservation tax credits claimed during that year for each qualified contribution. FTB also would provide other information, such as type of donated land, needed by the WCB in order to allocate bond funds correctly to reimburse the GF.

This bill would specify that the application of the prospective property donor would be accepted only if it includes a signed authorization allowing FTB to disclose information to the WCB necessary to reimburse the GF. The signed authorization would be in a form and manner mutually agreeable to FTB and the WCB.

ECONOMIC IMPACT

Revenue Estimate

Based on data and assumptions discussed below, this bill would result in the following revenue change:

| Estimated Revenue Impact of AB 2722 As Amended August 16, 2004 (\$ Millions) | | | |
|--|---------|---------|---------|
| Fiscal Years | 2005-06 | 2006-07 | 2007-08 |
| | -\$6 | -\$2 | +\$3 |

This estimate does not consider the possible changes in employment, personal income, or gross state product that could result from this bill.

Revenue Discussion

This estimate only addresses the revenue impact to the personal income tax and corporation tax funds. Generally, bond issuance and the related debt service and interest costs to the GF are not addressed by FTB. The revenue impact is a comparison of this bill and current law. Estimates are rounded to the nearest whole million.

It was assumed that enactment would be on or after January 1, 2005. Under this bill, bonds would be used to reimburse the GF for the amount of the Natural Heritage Preservation tax credit awarded. The usage of tax credits allows taxpayers to offset income tax liabilities, thus causing a loss of revenue to the income tax funds, which are funds within the GF. The loss occurs because the bonds do not reimburse the tax liability lost as a result of the credits that are claimed.

The Natural Heritage Preservation Tax Credit Act of 2000 set aside \$100 million, of which only \$37 million has been awarded. Under current law, as enacted by SB 1100, (Stats. 2004, Ch. 226), it is assumed that the remaining \$63 million would be allocated evenly in 2005-06, 2006-07, and 2007-08 at approximately \$21 million each fiscal year. It is further assumed that each \$21 million allocation would take five years to be fully used by taxpayers due to carryovers, which amounts to \$4 million on average each year (\$21 million divided by 5 years).

Based on historical departmental data of actual credit usage, it is estimated that, under this bill, the Natural Heritage Preservation tax credit results in a loss of income tax revenues of approximately \$10 million annually. The difference between the \$4 million under current law and the \$10 million of expected annual usage under this bill would result in an estimated \$6 million loss in fiscal year 2005-06.

In 2006-07, under current law, an additional \$4 million would be used in 2005-06, plus \$4 million in 2006-07 for a total of \$8 million in 2006-07. The difference in the revenue loss compared to this bill is \$8 million minus \$10 million equaling a \$2 million loss.

In 2007-08, under current law, there are three fiscal years of \$4 million each year, for a rounded \$13 million impact. The difference in the revenue impact under proposed law is \$13 million minus \$10 million equaling a \$3 million gain.

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